Genworth

Q3 2014 Key Messages – for Distribution Partners

Q3 2014 Business Performance

- Net operating loss was $317 million.
- Net operating loss driven by:
  - $345 million after-tax earnings impact from long term care insurance (LTC) claim reserves review
  - $35 million after-tax correction of a calculation in LTC
  - $34 million after-tax accruals in U.S. Mortgage Insurance (USMI) in connection with loss mitigation disputes
- Net loss in the quarter was $844 million.
- Net loss results driven by the factors above, plus $517 million in after-tax goodwill impairments in Life Insurance and LTC

LTC Claim Reserves Review Results

The results of our detailed LTC Claim Reserves review were included in our Q3 earnings release.

During the review, we looked at ~40 years of LTC claim data, including the ~200,000 claims paid during this period. Compared to our 2012 claim reserves review, this review included an additional 3 years of data.

From the review, we learned:

- Once LTC policyholders make a claim, they stay on claim longer ("length on claim")—and use more of their benefits ("utilization")—than we previously assumed, especially those who stay on claim for more than four years
- Both of these conclusions mean that we are paying out more in benefits than we previously anticipated for those claims

As a result of the review, we have changed some of our key assumptions in our reserve calculations and we have strengthened our claim reserves by $531 million pre-tax, creating a $345 million after-tax earnings impact.

Please click here for detailed review results.

STRATEGIC DIRECTION

We believe staying in the LTC business is the right decision for three reasons:

- In our opinion, the best way to improve near-term performance of these legacy older blocks of LTC business, which were written over a decade ago, is to continue to work with regulators on premium rate increases to limit losses and improve returns. We believe that our commitment to the LTC business is a positive catalyst toward continuing to obtain these premium rate increases. If there is a silver lining in the claim charge, it is another data point for regulators on why we need to work together to find the appropriate premium level on an important product for retiring baby boomers.
- We believe our new LTC products have strong returns and manageable risks.
- We believe there is future demand for LTC insurance as Americans seek to mitigate long-term care costs in retirement, and there are a limited number of providers.

On that basis, we remain confident that, over time, the LTC insurance business can become a very good business for Genworth.

We remain committed to our three-part LTC strategy, which includes:

- Working with regulators in each state to obtain significant premium increases on the older generation of LTC insurance blocks written before 2002. We know these books are very unprofitable, and we need these premium increases to bring the old blocks closer to break even over time and reduce the strain on earnings and capital.
- Requesting smaller rate increases from our regulators more proactively, on new blocks, as needed, to bring them back to original pricing.
- Introduce new products that are more tightly underwritten, with appropriately priced benefits, using more conservative assumptions. In July, we launched Privileged Choice® Flex 3, which reduces risk and aligns pricing to risk. The product also helps address the primary barriers to consumers purchasing long term care insurance – price and complexity.

FINANCIAL STRENGTH

- Genworth has a **strong financial position**. We have made significant progress over the last few years improving the holding company's financial strength and flexibility and have a solid capital position. In fact, we retain solid capital positions across all of our businesses—in excess of regulatory requirements—as well as significant holding company liquidity of $1.1 billion. At the holding company, we have $720 million more than 1.5 times our annual debt service, which is well in excess of our $350 million risk buffer for stress scenarios on top of the 1.5 times annual debt service.
- We'll retain the majority of the proceeds from the Australian IPO at the holding company for the foreseeable future to provide additional financial strength and flexibility as we plan to forgo dividends from the U.S. Life Division for the remainder of 2014 and into 2015.
- Genworth has the sufficient capital to cover all eligible claims as they arise. In the third quarter, the USLI division paid more than $871 million to our Life, Long Term Care, and Annuities policyholders and their beneficiaries.

- Genworth's insurance underwriting companies are required by law to set aside, or reserve, a certain amount of money to ensure sufficient assets to pay claims. The insurance underwriting companies' assets are separate from the holding company, Genworth Financial, Inc.
- In the U.S., banks provide coverage for a person's deposits through the Federal Deposit Insurance Corporation (FDIC), while insurance companies are self-insured in all 50 U.S. states, the District of Columbia, and Puerto Rico through guaranty fund associations that provide coverage to state residents for life, health, long term care, and annuity contracts for policyholders and beneficiaries.
- For more information about the state guaranty association system, please go to https://www.nolhga.com/

RATINGS

- Current information on Genworth's ratings can be found on the Investor section of www.genworth.com.
- Genworth carefully manages our capital, risk, and investment portfolio to maintain financial strength and support business strategies that will enhance shareholder value.
- As a company, we remain focused on the fundamentals of our business operations, including our capital foundation in our insurance entities and meeting our obligations to our customers, our policyholders, and our distributors.

Our recent ratings changes do not affect our ability to write new business or to pay claims.

- We have solid capital positions across all of our businesses—in excess of regulatory requirements, and we continue to take decisive actions to improve capital and financial flexibility, enabling us to write profitable new business and increase earnings over time.
- We are focused and determined to transform and build value in Genworth—and while challenges exist, we are confident that we have the right strategy in place and the right team to execute that strategy.

We are making progress improving the performance of our U.S. Life Insurance business.

- While we believe the Global MI Division is well along in its turnaround, this quarter's results were a step back in our USLI Division's progress.
- We believe the actions we announced as part of our third quarter financial reporting process represent proactive and prudent steps as we work to turn around our U.S. Life Division, including:
- A $531 million pre-tax reserve strengthening, resulting in a $345 after-tax earnings impact as a result of our LTC claim reserves review
- A $350 million goodwill charge in our life insurance business, resulting from lower projected overall sales as we transition to higher return permanent products which are expected to ramp up over time, and reduce our dependence on lower margin, capital-intensive term life insurance

- A $167 million after-tax goodwill charge in our LTC business, resulting from a smaller overall market size, lower near-term LTC sales projections as we continue to introduce higher return, lower risk products, increased expected use of reinsurance on new business, and higher expected claims costs
- Given this quarter's results, the turnaround of our U.S. Life Division will take longer than previously expected and will not be easy—but we remain committed to improving this business by:
    - Rebuilding capital to even higher levels than before the charge, beginning with our plan to forgo U.S. Life Insurance Division dividends to the holding company for the remainder of 2014 and into 2015 and then exploring options including block transactions, reinsurance, and shift in our sales mix over the coming months
    - Continuing to develop the next generation of LTC products with improved returns and reduced risk
    - Working with regulators to step up—and initiate new—premium rate increases to limit losses and improve returns on our in-force business
    - Transitioning our life insurance portfolio away from term insurance toward higher return permanent products, like universal life insurance, indexed universal life insurance, and combo products